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BEING CHAPTER V OF THE
SEVENTH BIENNIAL REPORT

OF THE

Minnesota Tax Commission

1920

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CHAPTER V

THE TONNAGE TAX AND THE NET PROFIT TAX ON IRON ORE

The present known merchantable iron ores of Minnesota are found in three separate ranges, the Vermilion, the Mesabi and the Cuyuna, located in Lake, St. Louis, Itasca, and Crow Wing counties. The Vermilion deposits are found in layers, varying in thickness from 10 feet to over 125 feet, and stand at an angle of about 45 degrees. The Mesabi deposits are found in horizontal basins of varying thickness and at different depths, much of which can be mined by open pit methods. The ore on the Cuyuna Range lies in nearly perpendicular veins of varying thickness and irregular outline, and presents many mining difficulties not encountered on the other ranges.

While iron ore was known to exist in Minnesota as early as 1850, it was not until 1865 that the first important discovery was made, when the Soudan mine was located at Tower on the Vermilion range. The initial shipment, however, was not made until 1884, nearly 20 years after discovery. Since that date, and up to the beginning of the present year, 43,179,510 tons of ore have been shipped from this range, with a remaining known tonnage on May 1, 1920, of 10,356,004 tons of merchantable ore.

The immense deposit of the Mesabi Range first attracted attention in the early nineties, when several deposits of rich hematite ores were discovered. They were so different, however, from anything that had theretofore been found in the Lake Superior region that at first serious doubt was felt as to their commercial value. The smelters objected to the ore because of its structure, but in a comparatively short time they adjusted themselves to its use, and since that time 520,686,631 tons of ore have been shipped from this range. Notwithstanding these large shipments, there was a remaining measured tonnage on May 1 of the present year of 1,306,135,590 tons of merchantable iron ore on the Mesabi Range.

The first shipments of iron ore in commercial quantities from the Cuyuna Range were made in 1911. Since that time, and up to the beginning of the present year, a total of 11,658,847 tons of ore have been shipped from this range. While the measured tonnage of merchantable ore on the Cuyuna Range was slightly less than

more

25,000,000 tons on May 1 of the present year, the range contains a great many million tons of ores that are not now merchantable but in time will undoubtedly be of considerable commercial value.

The Taxation of Iron Ore

The state began to give special attention to the taxation of iron ore three years before the first shipment was made from the Vermilion Range. By Chapter 54, Laws of 1881, extra session, a tax of one cent per ton was imposed on all iron ore mined in the state. This tax was in lieu of all other "taxes and assessments" on mining property, the law apparently being designed to encourage the development of mining industry in the state.

The output or tonnage tax remained in force until 1897, when it was repealed by Chapter 40, Laws of 1897, following an opinion rendered the previous year by the attorney general that the law was unconstitutional. Since that time iron ore in this state, both mined and unmined, has been assessed and taxed on the ad valorem basis.

Prior to 1914 the laws of the state required all property to be assessed and taxed at its true and full value. This law, however, had never been observed or enforced by assessing officials. Instead, the practice of assessing property at a percentage of full value had become so universal throughout the state as to have almost the force of law, and, in a measure, to receive legislative sanction, for practically all of our revenue laws were based on the assessment of property at less than its full value.

By Chapter 483, Laws of 1913, effective January 1, 1914, property was divided into four classes for purposes of taxation, each class being subject to assessment and taxation at a different percentage of true and full value. Iron ore, whether mined or unmined, constitutes Class 1 and is subject to taxation at 50 per cent of its true and full value. This is the highest percentage applied to any of the four classes, Class II being subject to taxation at 25 per cent, Class III at $33\frac{1}{3}$ per cent, and Class IV at 40 per cent of true and full value.

In the earlier years of the application of the ad valorem tax method to iron ores, no serious attempt was made to adopt any scientific rule of valuation. No reports of tonnages, and mining or other cost data were required from mining companies, and hence no reliable information was available upon which such properties could be even approximately valued for purposes of taxation. As a consequence, the assessment of iron ore in those early days was largely

a matter of guess, or of compromise between assessing officials and mine owners and operators.

Among other subjects that first engaged the attention of the tax commission when it was organized in 1907, was that of some method of measuring the taxable value of real property other than mere guess, or arbitrary opinion, or the revenue needs of a community, methods that had so long prevailed throughout the state in the assessment of all kinds of property. After careful investigation and study of the subject, it was decided that the selling price of property not only fairly represented its taxable value, but at the same time was in harmony with the law which provides that the price for which property sells at private sale shall be taken as the "true and full" value of such property for purposes of taxation, hence the adoption by the tax commission of the "sales method" of determining the taxable value of all real property.

But it was found that sales of fee title to ore properties were not sufficiently numerous to justify their use as a measure of the taxable value of such properties. The leasing, rather than the absolute sale of ore properties, was the method most generally followed in the ore belt. As a consequence, the tax commission was obliged to adopt a rule other than that of the sales method for the valuation of ore properties. It was finally decided that the selling price of ores at Lake Erie docks, less the cost of mining and shipping the same, fairly determined the present values of such ores in the ground. As it would be manifestly impossible to mine and ship all of the ore deposits in a single year or in a dozen years, it became necessary, in order to ascertain the present value of the future worth of such ores, to apply a percentage discount to present values extending over the expected life of the mines, the latter being based on measured tonnages and average expected annual shipments.

This, in brief, is the method followed by the tax commission in valuing iron ore in the ground for purposes of taxation. It may be aptly described as the net profit method of ascertaining the taxable value of iron ore deposits. The tax, of course, is applied to the value thus ascertained, and not directly to the profits. But in effect it is similar to a net profit tax, because under this method, in the final analysis, profits determine the values upon which the ad valorem tax is levied.

While it is not claimed that the net profit method, as here briefly described, is a perfect measure of the present taxable value of our iron ore deposits, we believe it does measure such value as fairly and as accurately as it is possible to measure the value of any com-

modity, a part of which will not be placed on the market for an indefinite number of years in the future. Measured by this method, we believe the present known tonnages of iron ore are today valued and assessed as accurately and as closely to legal requirements as that of any other class of real property in this state.

The immediate effect of the adoption by the tax commission in 1907 of the net profit method of appraising mineral properties resulted in an assessed valuation of \$191,706,682 in that year, as compared with \$64,486,409 in 1906, an increase of nearly 200 per cent in a single year. The taxable value of ore tonnages this year is \$297,383,065. Since 1907 and up to the present year, due to new tonnages disclosed through additional drillings, and to more accurate information as to grades and values, we have been enabled to show an increase in taxable values each year over the preceding year, with the exception of the years 1908 and 1919, when slight decreases were shown, the former being due to a readjustment of values rather crudely arrived at in 1907, and the latter due in part to a lessening of explorations because of conditions resulting from the war.

Since the organization of the tax commission in 1907, and up to and including the present year, there has been levied in taxes on mines and mineral property for state purposes only, a total of \$15,553,808 out of a total state tax levy of \$88,951,675 on all taxable real and personal property in the state. In other words, during this period mining property has paid a little over 17½ per cent on all state taxes.

In addition to revenues derived from the direct ad valorem tax on iron ore, the state also receives a large amount of revenue annually from indirect taxes on the mining industry. All railroads operating in the state are required to pay into the state treasury 5 per cent of their gross earnings in lieu of other taxes. The freight rate on iron ore at the present time from the mines to the Duluth and Superior harbors is \$1.00 per ton. On estimated shipments of 39,500,000 tons of ore this year the state will receive, in addition to direct taxes, \$1,975,000 in indirect taxes on that part of the gross earnings of railroads derived from ore shipments.

In addition to both direct and indirect taxes, the state receives a considerable revenue annually in the form of royalties on ore shipped from state-owned mines, the estimate for this year being \$1,475,000. The receipts from royalties, however, are credited to certain trust funds, and are not available for current state expenses. Up to June 30th of the present year the different trust funds have

been credited with total receipts of \$8,757,079 from state royalties on iron ore and from mineral leases.

It should not be understood that because taxable values have shown a consistent increase from year to year in the past, such increases will continue for an indefinite number of years in the future. The time must and will come when all of the iron ores of the state now considered merchantable will be disclosed by drillings, and when that time comes, no further annual increase in taxable values may be expected, because of decreasing tonnages due to shipments. Based on present measured tonnages of merchantable ores, shipments in the next thirty-five or forty years may exhaust the present supply. But millions of tons of merchantable ores may yet be disclosed by new drillings, and millions of tons of ore not now regarded as merchantable may be made commercially valuable by some new process of treatment or beneficiation, thus extending the exhaustion period almost indefinitely.

Taxation of Mines and Minerals in Other States

While the ad valorem system of taxing minerals is in general use in other states, there is considerable diversity in the method of valuing such property. In a number of the more important mineral states net profits are used as the principal measure of value, but the tax is imposed on the value measured by the profit, and not on the profit itself.

Michigan, which ranks next to Minnesota in the production of iron ore, uses the ad valorem system of taxation and measures values by the net profit method, using practically the same factors as are used in Minnesota. Perhaps it would not be inappropriate to say in passing that, while Michigan claims to be the pioneer in the net profit method of valuing iron mines, the method was in use in this state for four years before it was adopted in Michigan.

Alabama, ranking third in iron ore production, also uses the ad valorem system of mineral taxation, the tax being levied on a taxable value of about 60 per cent of full value. Apparently, however, no definite rule or measure of value has been adopted, assessing officials depending on such evidence as they may be able to obtain as to the value of each mine.

In addition to the ad valorem tax on mineral property, Alabama, under a law passed in 1919, also imposes a state license or privilege tax of 3 cents per ton on persons and corporations engaged in mining iron ore, the tax being computed on the tonnage mined each month.

Both New York and Wisconsin tax iron ore on the ad valorem

basis and at the same rates as other property is taxed. In addition to the general property tax, New York imposes a corporation tax of $4\frac{1}{2}$ per cent on the net income of mining and other corporations.

In Pennsylvania, mineral property is taxed in the same manner as other property. Corporations engaged in mining, as in other industrial activities, are subject to an additional tax of 5 mills on the amount of their capital stock invested in business in the state.

An effort was made some years ago by the legislature to levy a tax of $2\frac{1}{2}$ per cent on the market value of all anthracite coal mined in the state, but the law was declared unconstitutional.

Illinois and West Virginia tax coal and other minerals on the ad valorem basis, and at the same rate of taxation as other property. The laws of both states require full value assessments.

Indiana and Ohio also apply the ad valorem method of taxation to minerals, coal being the principal mineral production of both states.

Virginia taxes coal, its principal mineral product, on the ad valorem basis at prevailing local rates. In addition, there is a state tax of 85 cents on each \$100 of the capital of mining companies, while local districts may levy a tax not exceeding 30 cents on each \$100 of capital. Under the laws of that state all property used in mining which is not taxed as real property is taxed as capital. There is also a state income tax of 1 per cent on the first \$3,000 of taxable income, and 2 per cent on taxable income in excess of \$3,000.

Arizona applies the ad valorem method of taxation to mines. The system used in the valuation of productive mines is based on net production over a period of five years. Mines are classified with reference to their probable life, the longer lived mines being allowed an earning of 15 per cent, and the shorter as high as 30 per cent on the amount used for taxation purposes. Mines pay a little over one-half of all state taxes.

California also uses the ad valorem system of taxing mines and mineral properties. In arriving at the value of mines the net profit method is used by assessing officials. The net is arrived at by taking the gross income of each individual property and deducting therefrom actual production costs, and the value of the property is then taken to be one and a quarter times the net.

Montana has recently enacted a classified assessment law, patterned largely after the Minnesota law. Mines are taxable at full value, such value being determined by the net proceeds method. In arriving at net proceeds, deductions are allowed under the law for all money expended for necessary labor, machinery and sup-

plies used in mining operations; for necessary improvements in and about the working of the mine; for reducing the ores; for the construction of mills and reduction works, and for transporting and extracting the ore. Only money invested in the mines or improvements during the year immediately preceding the report can be included in expenditures, and no deduction is allowed for salaries of persons or officers not actually engaged in working, superintending or managing the mine.

Montana is one of the two states in which the net proceeds system of measuring the taxable value of mines is fixed by law.

New Mexico classifies mines and mineral lands as productive and non-productive. Productive mines are defined to be such as are mined in good faith for the mineral value thereof, with a fair degree of continuity throughout the year and on a scale reasonably commensurate with the opportunity and difficulty of disposing of the product thereof. All other mines and mineral lands are classed as non-productive. Both classes are taxed on the ad valorem basis at the same rate as other property is taxed, the taxable value of the former being determined by the state tax commission on the net value method as outlined by law, and the latter by local assessing officials on the best information obtainable.

The New Mexico mining law defines "net value" to be the difference between the actual cost of production, transportation, treatment, shipment and sale of mineral, and the amount realized from the sale of such mineral, or which could have been realized had the same been sold at the time of making the report, but not less, however, in either event, than the true market value of the mineral.

New Mexico is the other one of the two states in which the net value method of measuring the taxable value of minerals is fixed and outlined by law.

Two states, Oklahoma and Texas, impose a tax on the gross value of oil produced, the former at 3 per cent and the latter at 1½ per cent.

Utah taxes all mines and mining claims as real property on the basis of the price paid the United States for the same, plus any value they may have for other than mining purposes. The net annual proceeds are also taxed as personal property at the same rate as other property in the state is taxed.

Colorado uses a combination of gross and net proceeds in valuing mines for purposes of taxation. Mines are classified as producing and non-producing, the former being defined as mines having a gross annual production in excess of \$5,000. In valuing productive mines

assessing officials are required to determine both gross and net proceeds. The assessment is made at a sum equal to one-quarter of the gross proceeds, or at a sum equal to the net proceeds if the latter exceed one-quarter of gross proceeds.

The foregoing brief summary of the laws of other states relating to mineral taxation necessarily omits many details of such laws as to the methods of imposing the tax, as well as to the collection and distribution of the tax. It will be noted that while the net profit method of measuring value is used in a number of states, with the exception of Montana, no state included in the list uses any higher percentage of taxable value for mineral than for other property. Nor does any state in the list impose a double tax on minerals, unless the license or privilege tax of 3 cents per ton imposed on the output of persons or corporations engaged in mining iron in Alabama be regarded as a double tax. While New York imposes a tax of $4\frac{1}{2}$ per cent on the net income of corporations engaged in mining, the tax is also imposed on the net income of other industrial corporations, so it cannot be regarded as a double tax on mineral production, because it applies alike to the production of all industrial corporations.

Arguments For and Against a Super-tax

The principal arguments used by the proponents of a super-tax on iron ore may be summarized as follows:

Iron ore being a product of nature, its presence in the ground not being the result of the expenditure of capital or labor, is a natural heritage of all the people, and as such, the people are justified in appropriating to their use, in some form of taxation, some considerable part of the value arising from its exploitation.

That it does not reproduce itself, therefore its value is diminished by use through depletion, and that because of this diminishing value it should bear a heavier tax than other forms of natural property not diminished by use.

That under existing conditions the bulk of this great natural heritage is gradually being removed from the state to enrich other states, and that eventually its value as a taxable state asset will have disappeared through depletion due to shipments, and in its place will be found only valueless "holes in the ground," and that for this reason the state is justified in exacting a heavy toll in the form of a super-tax for the depletion and disappearance of its natural wealth.

That a super-tax on profits will insure the state a fairly uniform amount of public revenue annually from mine taxation during the life of mining in the state, while, if it depends on ad valorem taxes only, the receipts therefrom will soon begin to decline, and will reach the vanishing point within a generation.

In answer to these arguments the opponents of a super-tax contend:

That the natural heritage theory has no greater force in its application to iron ore than to other forms of natural wealth.

That if the state has a natural heritage in iron ore, it also has a natural heritage in its quarries, its forests, and its fertile agricultural lands.

That if one form of natural wealth should bear a super-tax because of the heritage theory, then all forms of natural wealth should be subjected to the same tax.

That admitting for the purpose of the point that the heritage argument has some force, it is a heritage of the nation, and not simply a heritage of the people of Minnesota, for the people of this state had no more to do with the placing of iron ore in the ground than had the people of other states.

In answer to the diminishing value argument and the disappearance from the state of its natural wealth the opponents of the super-tax contend:

That a part of the ore is converted into other forms of wealth in this state and continues to be a taxable asset of the state.

That the mining of the ore creates other forms of taxable wealth that would not be called into being if we had no ore deposits.

That while at the present time a large part of the ore is shipped out of the state, a considerable part of it comes back again in manufactured form, and thus again becomes a taxable asset of the state.

That if our natural wealth should be subjected to a heavy super-tax because a part of it is being shipped out of the state, then other states would be justified in imposing an equally heavy super-tax on coal and other natural commodities shipped into this state, thus adding to their cost; that such a theory is wholly selfish and economically unsound,

That any substantial increase in the present tax burden on mines will tend to discourage the mining industry and to stop explorations for new tonnages, as well as to discourage, if not eventually stop the experiments that are now being carried on at great private cost to render commercially valuable the immense deposits of low

grade and magnetic ores known to exist within the state, and that excessive taxation in any form will force mining people to discontinue or greatly curtail their activities, and to direct their attention to the ore deposits of other states or countries in which the mining industry is not burdened with excessive taxes .

Bills Affecting Mine Taxation in This State Introduced at Different Sessions of the Legislature

The taxation of iron ore, or of companies engaged in the mining of ore, has occupied the attention of the legislature, to a greater or less extent, at each of its sessions since 1907.

The earlier bills were distinctly "tonnage tax" bills, inasmuch as they imposed the tax on the tonnage produced without regard to value. The bills of 1909 and 1911, however, had some of the elements of value in them, because they provided for a graduated tax based on metallic content, and of course the metallic content of ore has much to do with determining its value.

The first departure from the "tonnage tax" principle was the bill introduced in the session of 1917, which proposed to levy the tax on the gross value of the ore at the mouth of the mine. Both of the bills introduced in the session of 1919, as finally considered, based the tax on the value of the ore and not on the tonnage, one on a so-called semi-net value, and the other on net value. The bill of the extra session of 1919 also used net value as the basis of taxation. In its final evolution, therefore, the proposal has changed from a "tonnage tax" to a "net profit tax."

The burden of the proposed tax has also changed with the nature of the tax. In the earlier proposals the tax imposed was in lieu of all other state taxes while the later ones made it an additional tax, that is, the tax was in addition to the ad valorem tax. The bill of the extra session of 1919 provided for the deduction from the net profit tax of an amount equivalent to the ad valorem tax paid on the ore mined and shipped in any year. In all of the bills the proceeds of the tax were to be credited to the general revenue fund of the state, except the bills of 1909 and 1911, in which it was provided that a specified amount of the tax should be credited to the school and university funds.

Session of 1907

A bill imposing a tax of 25 cents per ton on mined iron ore, and providing for a rebate of 20 cents per ton on all ore smelted within

the state, was introduced in the session of 1907 and was later withdrawn because it was clearly in conflict with the provisions of the federal constitution regulating interstate commerce.

A second bill was introduced, House File No. 851, classifying mines as "A" and "B," the former being defined as mines having iron ore of a metallic content of 49 per cent or more, and the latter as mines having ore of less than 49 per cent in metallic content.

Mines in class "A" were to be assessed and taxed for county and local purposes at the same rate as other property in the district in which the mine was located. No levy was imposed on mines in class "A" for any state purpose, but in lieu thereof, a tax of 5 cents per ton was imposed on the tonnages mined each year.

Provision was made for a mining expert to check production, and for verified reports from mining companies.

A special joint committee was named by the Senate and House to visit the mining districts for the purpose of studying mining conditions on the ground, with instructions to report its findings as promptly as possible. The committee spent several days in the mining districts and, upon its return, reported adversely on the pending tonnage tax bills. The report of the committee may be summarized as follows:

1. That the ore properties of the state should be assessed and taxed on the ad valorem basis, but that the assessed values of such property should be substantially increased.

2. A flat tonnage tax is impracticable because of the wide difference in the value of ore.

3. A sliding scale tonnage tax, based on the value of the ore, would be impracticable, almost inoperative, and would entail great expense on the state.

4. A tonnage tax only on ore shipped out of the state would be invalid, because repugnant to the constitution of the United States.

5. That there was grave doubt whether or not the amendment to the state constitution authorizing the classification of property for purposes of taxation, voted upon at the previous election, (1906) had been adopted, and if not legally adopted, the proposed legislation would be unconstitutional.

6. That "your committee had the utmost assurance that there will, in the near future, be installed a steel plant at Duluth, costing between \$10,000,000 and \$15,000,000, thus making it possible to manufacture both low and high grade ore into the finished product in

this state, which will be of great benefit to the people of the entire Northwest."

The report of the special joint committee was apparently favorably regarded, for House File No. 851 was indefinitely postponed.

Session of 1909

Another tonnage tax bill, House File No. 227, was introduced in the session of 1909. The bill provided that mines producing 20,000 tons or more of ore between January 1 and September 1 of any year should be known as class "A," and all other mines and lands containing iron ore should be known as class "B." Mines in class "A" were made subject to a specific tax on production, based on metallic content, as follows:

Mines yielding less than 49 per cent in metallic iron, 2 cents per ton.

Mines yielding 49 per cent or over and less than 54 per cent, 3 cents per ton.

Mines yielding 54 per cent or over and less than 59 per cent, 4 cents per ton.

Mines yielding 59 per cent or over, 5 cents per ton.

The graduated tax on mines in class "A" was in lieu of all other state taxes, but such mines were subject to county and local taxation.

The taxes to be paid on mines in class "A" were to be apportioned as follows:

To the state school and university fund, an amount equal to what would accrue to such fund on the valuation of the mines in class "A" if such mines were assessed and taxed on the ad valorem basis, and the remainder to the general revenue fund of the state.

All other mines and mineral lands not included in class "A" were to be assessed and taxed in like manner as other property in the same assessment district.

The bill passed the House by a vote of 61 yeas and 57 nays and the Senate by a vote of 38 yeas and 24 nays, but was vetoed by Governor John A. Johnson.

The reasons given by Governor Johnson for his veto of the bill may be summarized as follows:

1. That both in principle and administrative features, the bill is a more or less uncertain and ill-digested experiment, not fully understood by its friends, and intensely feared by the sections of the

state to which it specially applies, while in application it threatens to violate the fundamental principle of taxation, that of equality, at the same time it fails to meet the constitutional requirement of uniformity in taxing the same class of subjects.

2. That the moral, industrial, and practical effect of the bill would strike a severe blow at the development and prosperity of the mineral sections of the state, affecting alike the agricultural, manufacturing, commercial, financial and educational growth, as well as the settlement of the northern sections of the state, and that it would discourage the investment of both home and foreign capital therein.

3. That the passage of a bill so little understood, and so generally misunderstood, has already plunged the whole subject of taxation under the new constitutional amendment into a sea of political and sectional feeling and prejudice, threatening sectional hatreds and seriously endangering the future best development of the state.

4. That Minnesota has already achieved marked success in the assessment and taxation of iron ore lands under the present ad valorem system; that there is no urgent or vital public need for a measure of this kind, and nothing to prevent the state from taking ample time, and with the aid of the state tax commission, to work out a scientific and equitable system of taxation, devoid of political and sectional feeling, and fair in principle to all sections and interests of the state.

No effort was made to pass the bill over the governor's veto.

Session of 1911

The so-called tonnage tax question again claimed the attention of the legislature in the session of 1911. House File No. 404 proposed to tax mined iron ore for state purposes only in the same manner, under the same classification, and at the same rates as the bill vetoed in 1909. The bill was made a special order in the House and defeated by a vote of 48 yeas and 70 nays.

Session of 1913

House File No. 90, introduced in the session of 1913, was almost identical in its provisions with the bill of 1909, except that it de-

finer class "A" as mines producing not less than 2,000 tons of iron ore during the year.

The committee on taxes and tax laws recommended that the bill be amended to provide that taxes collected under it "shall be distributed pro rata to the several funds for which state and state school taxes are levied and certified by the state auditor as provided by law," and that when so amended, the bill be reported to the House without recommendation and made a special order for February 18th, which report was adopted. It was further slightly amended on the floor of the House when it came up under the special order, and upon roll call, the bill as amended was defeated by a vote of 55 yeas to 61 nays.

House File No. 940 provided for a tax on the franchise of corporations, whether domestic or foreign, possessing the right under their charters to own, purchase or lease ore lands, or in any way engage in the business of mining, purchasing or selling iron ore, the rate of tax being one cent on each ton of ore mined, which tax was to be in addition to all other taxes levied on mineral property.

The bill was indefinitely postponed, after a motion that it be printed and placed on general orders had been defeated by a vote of 37 yeas to 50 nays.

Under House File 1080 it was proposed to amend Article IX of the state constitution by authorizing the legislature to classify iron mines into producing and non-producing mines, and to levy a graded or progressive tax for state purposes on producing mines, which tax should be in lieu of all other taxes for state purposes.

The bill was subsequently referred back to its author.

Session of 1915

While no tonnage tax bill was introduced in the session of 1915, by a resolution offered in the House, it was proposed to appoint a special committee to investigate the taxation of mines and minerals and the expenditure of taxes collected for mining property, and to report its findings on or before December 1, 1916. Upon vote, the resolution was indefinitely postponed.

Session of 1917

A new form of tonnage or output tax made its appearance in the session of 1917. By House File No. 253 it was proposed to levy a tax of two per cent on the gross value, at the mouth of the mine,

of all iron ore mined during the year. The tax was in addition to all other taxes levied on mines and minerals and was to be paid into the general revenue fund of the state. The bill passed the House by a vote of 69 yeas and 61 nays, but was defeated in the Senate by a vote of 27 yeas and 40 nays.

Session of 1919

More bills affecting the taxation of iron ore were introduced in the session of 1919 than at any previous session of the legislature. All of them, with one exception, differed materially in principle from the bills heretofore introduced. The bills considered at other sessions based the tax either on the metallic content of the ore mined, or its gross value at the mouth of the mine, while the two bills that were finally considered at the 1919 session imposed the tax on either the net or semi-net value of the ore mined.

House File No. 11 imposed a tax of 2 per cent on the gross value of the ore at the mouth of the mine. It was indefinitely postponed at the request of its author.

House File No. 22 imposed a tax of 10 per cent on the net value of all iron ore mined in any year. It was the first bill using net value as the tax base to be introduced in the House. The tax was in addition to the ad valorem tax, one-half of which was to be apportioned to a land settlement fund and one-half to the common school districts of the state on the basis of school population. The bill was indefinitely postponed at the request of its authors.

House File No. 464, except in title and in the apportionment of the proceeds, was practically a copy of H. F. No. 22. It imposed a tax of 10 per cent on the net value of mined iron ore. The taxes imposed under the bill were to be in addition to the general ad valorem tax. They were payable semi-annually and were to be apportioned one-half to the state school fund and one-half to the general revenue fund of the state.

The bill was referred to the committee on taxes and tax laws and was reported back without recommendation. It was made a special order for March 25th and was defeated by a vote of 61 yeas to 64 nays.

House File No. 729 imposed a tax of 4 per cent on the semi-net value of all iron ore mined in the state in any year. The proposed tax was to be in addition to the general ad valorem tax, the proceeds to be credited to the general revenue fund of the state.

The bill enumerated the items of expense, the aggregate of which was to be deducted from the market value of the ore in determining its taxable value.

A new feature of the bill was a provision permitting the deduction from the tax imposed under it of an amount equivalent to all general taxes, state and local, paid on the ore shipped in any year, the purpose being to make the tax uniform on mined ores and to avoid collecting a double tax annually on such ores.

The committee on taxes and tax laws reported the bill back with the recommendation by a majority of the committee that it be indefinitely postponed, while a minority report recommended it for passage. The majority report was adopted and the bill indefinitely postponed by a vote of 44 yeas to 81 nays.

House File No. 864 marked a new departure in proposed legislation affecting the taxation of iron ore. It amended the classified assessment law by making mined iron ore a separate class for purposes of taxation and imposed a tax equal to 3 per cent of the gross value of such ores at the mouth of the mine. The tax was to be in addition to the taxes levied and collected on the ad valorem basis. Semi-annual payments were provided for, the proceeds of the tax to be credited to the general revenue of the state.

The bill was amended in committee by request of its author, making the tax imposed under it in lieu of other taxes upon mined ore, and providing for the apportionment out of the proceeds of the tax to the counties and local districts in which the mines were located of an amount equal to an ad valorem levy for county and local purposes. The committee reported the bill back and recommended that it be indefinitely postponed. The report was adopted by the House without roll call.

Tax on Royalties

House File No. 195 defined royalties as the net sum or value paid to the owner of the fee, or other right, title, or interest in mineral land for the permission to possess, occupy, or use such mineral land, and imposed a tax on the capitalized value of such royalties, the tax to be imposed on 50 per cent of the full capitalized value and at the same rate as other property is taxed. The bill was indefinitely postponed.

House File No. 849 defined the word "royalty" to mean the amount received by any person having any right, title, or interest

in or to any tract of land in this state for permission to explore, mine, take out and remove ore therefrom, and imposed a tax of 5 per cent on the amount of such royalties. The situs of royalty for the purpose of the bill was fixed in this state and the tax made a specific lien upon the right, title, and interest of the person to whom such royalty was paid.

The bill was reported back with the recommendation that it pass and made a special order for March 26th. It passed the House by a vote of 92 yeas to 25 nays, but was defeated in the Senate by a vote of 33 yeas to 34 nays.

Extra Session of 1919

House File No. 23 of the extra session of 1919 imposed a tax equal to 5 per cent of the value of all ores produced and shipped in any year after deducting certain specified mining and shipping costs. The costs to be deducted from the market value of the ore were:

1. The cost of labor for separating the ore from the ore deposit and placing it in cars for shipment from the mine.
2. The cost of washing, drying, or otherwise beneficiating such ore, if the same is washed, dried or beneficiated.
3. The cost of transporting the ore from the mine to the place of sale.
4. If taken from open pit mines an amount for each ton mined equal to the cost of removing the overburden divided by the number of tons of ore uncovered; the amount of ore uncovered to be determined by the Minnesota tax commission.
5. If taken from underground mines, an amount for each ton of ore mined equal to the cost of sinking and constructing shafts and running drifts to take out the ore, divided by the number of tons that can be advantageously taken out through such drifts and shafts; the number of tons of ore that can be advantageously taken out in each such case to be determined by the Minnesota tax commission.

Provision was made for the deduction from the tax imposed under the bill of an amount equal to the ad valorem tax paid on the ore mined during the year, in order that the tax imposed should be uniform on all mined ore and to avoid collecting a double tax annually on such mined ore.

The tax imposed under the bill was payable annually and was to be credited to the general revenue fund of the state.

The bill passed the House by a vote of 101 yeas to 22 nays, and the Senate by a vote of 38 yeas to 28 nays and was subsequently vetoed by Governor J. A. A. Burnquist.

The reasons given by Governor Burnquist for his veto of the bill may be summarized as follows:

1. That a similar measure was defeated in the House at the regular session, and such a sudden reversal of opinion on the part of many members shows the advisability of further deliberation on a subject of such importance.

2. That the theory of the tax is unjust in that it singles out one industry located in one section of the state as a separate subject of special taxation.

3. That the argument advanced that the enactment of such a law will eliminate the so-called tonnage tax question from the field of politics does not justify an approval of the measure regardless of merit; on the contrary, the enactment of the measure will give those who are prejudiced against a certain section or industry of the state further opportunity for additional controversy as to the adequacy and distribution of the proposed tax.

4. That iron ore is already taxed 50 per cent higher than farm lands, so that the whole subject narrows itself down to the question as to whether iron properties should be taxed to a still greater extent and differently from other property because of the diminishing value theory.

5. That any theory which holds that because the removal of the ore diminishes the value of the land from which it is taken, it should therefore be taxed at a higher rate than other property is unsound and illogical; that the fact that most of the ore is taken out of the state is no more an argument for increasing the taxes thereon than the removal from the state of lumber, granite, grain or any other property justifies an increase of taxes on such property; that the ore is converted into other forms of taxable wealth; that because all of such converted wealth does not remain in Minnesota does not justify a higher tax on it than on other forms of converted wealth removed from the state.

6. That iron ore is not the product of nature to any greater extent than the soil; that only a small part of it originally belonged

to the state through federal grant, and that therefore it is not a natural heritage of the people of Minnesota.

7. That if a profit tax should be applied to one industry located in one section of the state, then it should be applied to all industries located in all sections of the state.

8. That if the owners of iron ore have secured a practical monopoly of the product by unfair methods, and are obtaining unreasonable profits by reason thereof, the remedy is through the courts and by suitable legislation, rather than by an attempt on the part of the state to share in the alleged illegal profits through taxation.

9. That in enacting tax legislation equality and uniformity should be observed; that taxation should not be used as an instrument to impose unfair and excessive burdens on any class, industry or section of the state; that revenues too easily secured tend to extravagance in governmental expenditures; that legislation based on doubtful theories of taxation liable to lead to continual litigation and sectional strife should be avoided; that our greatest progress will be realized in the enactment of fair measures that tend to concord rather than to discord.

Probable Revenue From a Net Profit Tax

The amount of revenue that would be produced in any year by a net profit tax on mined iron ore would depend on several fluctuating factors. It could not be estimated in advance with any absolute certainty because of these fluctuating factors. The factors that would determine the amount of the tax in any year are, first, the rate of the tax; second, the quantity shipped, and, third, the net profit derived from the mining of the ore.

The first factor could be a fixed one, but the second and third factors would fluctuate from year to year, according to the quantity and grade of ore shipped, labor and other mining costs, transportation costs, and the market price of the ore. Then, too, if the larger part of shipments in any year were made from mines with good grades of ore and low production costs, the net profits would be correspondingly larger, while if the larger part of shipments were made from mines with poorer grades of ore and high production costs, the net profits would be correspondingly smaller. Because of these changing conditions the yield that might be expected from a net profit tax in any year could at best be only approximated, and not determined in advance with any great degree of accuracy.

If royalties paid should be included in mining costs, and of course they are a cost to the operator, the average net profits derived from mining would be reduced accordingly. With royalties included in mining costs, and judging the future by past experience, it is not improbable that in a year of adverse business conditions average net profits might be as low as \$1.00 per ton, or even less, while in a year of prosperous business conditions such average profits might approach \$1.50 per ton, or even exceed this amount. Perhaps anywhere from \$1.20 to \$1.30 per ton might be taken as average expected net profits during the next five or ten years. It should be understood, however, that these figures are estimates only. They may be affected materially by changing mining or market conditions, or by the increasing use of low grade ores. The latter, however, would affect ad valorem values in an equal ratio to net profit values.

Because of uncertainty of amount of future public revenues that may be expected from a percentage tax on net profits derived from the mining of iron ore, we have prepared the following basic tables showing the amounts of such revenues on assumed annual shipments that may be expected in any year from a tax on net profits at different percentage rates. The tables also show the amounts of future public revenues that may be expected at different millage rates from our present ad valorem method of taxing iron ore. It is hoped the tables may be timely as a matter of public information, as well as an aid in determining what would be a fair percentage tax on net profits should it be deemed advisable to adopt the net profit method of taxing mined iron ore.

Comparison of Net Profit Taxes With Ad Valorem Taxes

There is a noticeable lack of information, as well as some misconception, regarding the probable amount of public revenues that may be expected from a net profit tax on iron ore. So far as we are aware, no authentic estimates of the probable yield of such a tax have been prepared by either the proponents or opponents of the tax. It is true that certain estimates have appeared from time to time in the public press, but a casual examination of the amounts suggested indicates that such estimates are based on mere guess rather than absolute figures.

The three prime factors that determine the amount of yield in any year from a net profit tax, as already explained, are, first, the

per cent of the tax; second, the profit per ton derived from the mining of the ore, and, third, the quantity mined and shipped during the year. The first may be a fixed factor, but because of changing industrial conditions the second and third factors will vary from year to year. It therefore becomes necessary, in estimating the tax yield, to assume definite figures for all three factors.

In compiling the tables that follow we have assumed a total tonnage of 1,400,000,000 tons, and annual shipments of 35,000,000 tons for a period of forty years, on which we have estimated profits at varying rates, beginning at \$1.00 per ton and increasing by 10 cent steps until the net profit reaches \$1.60 per ton, and to these profits we have applied different tax rates, beginning at 1 per cent and rising to 10 per cent, for the purpose of showing the total tax yield that may be expected from a given profit at a given tax rate.

In order that the amount of the yield from a net profit tax may be compared with the yield from our present ad valorem method of taxing iron ores, we have computed the amount of taxes that may be derived from the latter method on tax levies of 4 to 12 mills, beginning on a present assumed taxable value of \$280,000,000, and decreasing \$7,000,000 annually because of shipments.

While, in compiling the tables, we have used a present tonnage of 1,400,000,000 tons of merchantable ore with an assessed value of \$280,000,000, and an exhaustion period of forty years, it should be understood that these figures are approximate rather than absolute. The tonnages may be substantially increased by new discoveries of ore, or by a process of beneficiating low grade ores by which they may be made merchantable, thus extending the exhaustion period, while taxable values may be materially changed by future market conditions.

TABLE NO. 1

Statement showing ad valorem taxes on iron ore, each year for 40 years, on a present taxable value of \$280,000,000 and decreasing \$7,000,000 annually, based on tax levies of 4, 5, 6, 7, 8, 9, 10, 11 and 12 mills, and also showing the per cent of profit tax required on annual shipments of 35,000,000 tons at a net profit of \$1.20 per ton to equal ad valorem taxes at the different rates of levy.

Year	Assessed Value	4 Mills	5 Mills	6 Mills	7 Mills	8 Mills	9 Mills	10 Mills	11 Mills	12 Mills
1.....	\$280,000,000	\$1,120,000	\$1,400,000	\$1,680,000	\$1,960,000	\$2,240,000	\$2,520,000	\$2,800,000	\$3,080,000	\$3,360,000
2.....	273,000,000	1,092,000	1,365,000	1,638,000	1,911,000	2,184,000	2,457,000	2,730,000	3,003,000	3,276,000
3.....	266,000,000	1,064,000	1,330,000	1,596,000	1,862,000	2,128,000	2,394,000	2,660,000	2,926,000	3,192,000
4.....	259,000,000	1,036,000	1,295,000	1,554,000	1,813,000	2,072,000	2,331,000	2,590,000	2,849,000	3,108,000
5.....	252,000,000	1,008,000	1,260,000	1,512,000	1,764,000	2,016,000	2,268,000	2,520,000	2,772,000	3,024,000
6.....	245,000,000	980,000	1,225,000	1,470,000	1,715,000	1,960,000	2,205,000	2,450,000	2,695,000	2,940,000
7.....	238,000,000	952,000	1,190,000	1,428,000	1,666,000	1,904,000	2,142,000	2,380,000	2,618,000	2,856,000
8.....	231,000,000	924,000	1,155,000	1,386,000	1,617,000	1,848,000	2,079,000	2,310,000	2,541,000	2,772,000
9.....	224,000,000	896,000	1,120,000	1,344,000	1,568,000	1,792,000	2,016,000	2,240,000	2,464,000	2,688,000
10.....	217,000,000	868,000	1,085,000	1,302,000	1,519,000	1,736,000	1,953,000	2,170,000	2,387,000	2,604,000
11.....	210,000,000	840,000	1,050,000	1,260,000	1,470,000	1,680,000	1,890,000	2,100,000	2,310,000	2,520,000
12.....	203,000,000	812,000	1,015,000	1,218,000	1,421,000	1,624,000	1,827,000	2,030,000	2,233,000	2,436,000
13.....	196,000,000	784,000	980,000	1,176,000	1,372,000	1,568,000	1,764,000	1,960,000	2,156,000	2,352,000
14.....	189,000,000	756,000	945,000	1,134,000	1,323,000	1,512,000	1,701,000	1,890,000	2,079,000	2,268,000
15.....	182,000,000	728,000	910,000	1,092,000	1,274,000	1,456,000	1,638,000	1,820,000	1,992,000	2,184,000
16.....	175,000,000	700,000	875,000	1,050,000	1,225,000	1,400,000	1,575,000	1,750,000	1,925,000	2,100,000
17.....	168,000,000	672,000	840,000	1,008,000	1,176,000	1,344,000	1,512,000	1,680,000	1,848,000	2,016,000
18.....	161,000,000	644,000	805,000	966,000	1,127,000	1,288,000	1,449,000	1,610,000	1,771,000	1,932,000
19.....	154,000,000	616,000	770,000	924,000	1,078,000	1,232,000	1,386,000	1,540,000	1,694,000	1,848,000
20.....	147,000,000	588,000	735,000	882,000	1,029,000	1,176,000	1,323,000	1,470,000	1,617,000	1,764,000
21.....	140,000,000	560,000	700,000	840,000	980,000	1,120,000	1,260,000	1,400,000	1,540,000	1,680,000
22.....	133,000,000	532,000	665,000	798,000	931,000	1,064,000	1,197,000	1,330,000	1,463,000	1,596,000
23.....	126,000,000	504,000	630,000	756,000	882,000	1,008,000	1,134,000	1,260,000	1,386,000	1,512,000
24.....	119,000,000	476,000	595,000	714,000	833,000	952,000	1,071,000	1,190,000	1,309,000	1,428,000
25.....	112,000,000	448,000	560,000	672,000	784,000	896,000	1,008,000	1,120,000	1,232,000	1,344,000

26.....	105,000,000	420,000	525,000	630,000	735,000	840,000	945,000	1,050,000	1,155,000	1,260,000
27.....	98,000,000	392,000	490,000	588,000	686,000	784,000	882,000	980,000	1,078,000	1,176,000
28.....	91,000,000	364,000	455,000	546,000	637,000	728,000	819,000	910,000	1,001,000	1,093,000
29.....	84,000,000	336,000	420,000	504,000	588,000	672,000	756,000	840,000	924,000	1,008,000
30.....	77,000,000	308,000	385,000	462,000	539,000	616,000	693,000	770,000	847,000	924,000
31.....	70,000,000	280,000	350,000	420,000	490,000	560,000	630,000	700,000	770,000	840,000
32.....	63,000,000	252,000	315,000	378,000	441,000	504,000	567,000	630,000	693,000	756,000
33.....	56,000,000	224,000	280,000	336,000	392,000	448,000	504,000	560,000	616,000	672,000
34.....	49,000,000	196,000	245,000	294,000	343,000	392,000	441,000	490,000	539,000	588,000
35.....	42,000,000	168,000	210,000	252,000	294,000	336,000	378,000	420,000	462,000	504,000
36.....	35,000,000	140,000	175,000	210,000	245,000	280,000	315,000	350,000	385,000	420,000
37.....	28,000,000	112,000	140,000	168,000	196,000	224,000	252,000	280,000	308,000	336,000
38.....	21,000,000	84,000	105,000	126,000	147,000	168,000	189,000	210,000	231,000	252,000
39.....	14,000,000	56,000	70,000	84,000	93,000	112,000	126,000	140,000	154,000	168,000
40.....	7,000,000	28,000	35,000	42,000	49,000	56,000	63,000	70,000	77,000	84,000
	\$22,960,000	\$28,700,000	\$34,440,000	\$40,180,000	\$45,920,000	\$51,660,000	\$57,400,000	\$63,140,000	\$68,880,000	

Equivalent in profit tax	1.37%	1.71%	2.05%	2.39%	2.73%	3.08%	3.42%	3.76%	4.10%
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TABLE II

Statement showing average per cent of tax required for 40 years on net profits of \$1.00, \$1.10, \$1.20, \$1.30, \$1.40, \$1.50 and \$1.60 per ton to equal an ad valorem tax levy of 4, 5, 6, 7, 8, 9, 10, 11 and 12 mills, on a total tonnage of 1,400,000,000 tons having a taxable value of \$280,000,000 based on annual shipments of 35,000,000 tons and a decreasing ad valorem valuation of \$7,000,000 per year.

Levy in mills ad valorem	Equivalent in Percentage Tax on Net Profit per Ton at						
	\$1.00 Per cent	\$1.10 Per cent	\$1.20 Per cent	\$1.30 Per cent	\$1.40 Per cent	\$1.50 Per cent	\$1.60 Per cent
4 mills.....	1.64	1.49	1.37	1.26	1.17	1.09	1.02
5 mills.....	2.05	1.86	1.71	1.58	1.46	1.37	1.28
6 mills.....	2.46	2.24	2.05	1.89	1.76	1.64	1.53
7 mills.....	2.87	2.61	2.39	2.21	2.05	1.91	1.79
8 mills.....	3.28	2.98	2.73	2.52	2.34	2.19	2.05
9 mills.....	3.69	3.35	3.08	2.84	2.64	2.46	2.31
10 mills.....	4.10	3.73	3.42	3.15	2.93	2.73	2.56
11 mills.....	4.51	4.10	3.76	3.47	3.22	3.00	2.81
12 mills.....	4.92	4.48	4.10	3.78	3.52	3.28	3.07

TABLE III

Statement showing total amount of taxes in 40 years, based on annual shipments of 35,000,000 tons at a net profit of \$1.00, \$1.10, \$1.20, \$1.30, \$1.40, \$1.50 and \$1.60 per ton and tax rates of 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 per cent.

	\$1.00	\$1.10	\$1.20	\$1.30	\$1.40	\$1.50	\$1.60
1 per cent.....	\$14,000,000	\$15,400,000	\$16,800,000	\$18,200,000	\$19,600,000	\$21,000,000	\$22,400,000
2 per cent.....	28,000,000	30,800,000	33,600,000	36,400,000	39,200,000	42,000,000	44,800,000
3 per cent.....	42,000,000	46,200,000	50,400,000	54,600,000	58,800,000	63,000,000	67,200,000
4 per cent.....	56,000,000	61,600,000	67,200,000	72,800,000	78,400,000	84,000,000	89,600,000
5 per cent.....	70,000,000	77,000,000	84,000,000	91,000,000	98,000,000	105,000,000	112,000,000
6 per cent.....	84,000,000	92,400,000	100,800,000	109,200,000	117,600,000	126,000,000	134,400,000
7 per cent.....	98,000,000	107,800,000	117,600,000	127,400,000	137,200,000	147,000,000	156,800,000
8 per cent.....	112,000,000	123,200,000	134,400,000	145,600,000	156,800,000	168,000,000	179,200,000
9 per cent.....	126,000,000	138,600,000	151,200,000	163,800,000	176,400,000	189,000,000	201,600,000
10 per cent.....	140,000,000	154,000,000	168,000,000	182,000,000	196,000,000	210,000,000	224,000,000

TABLE IV

Statement showing the average millage tax levy required for 40 years to equal a profit tax of 1 per cent to 10 per cent on net profits of \$1.00, \$1.10, \$1.20, \$1.30, \$1.40, \$1.50 and \$1.60 per ton, based on 1,400,000,000 tons of ore having a taxable value of \$280,000,000, and shipments of 35,000,000 tons annually with a decreasing ad valorem valuation of \$7,000,000 per year.

Profit per Ton	Millage levy required to equal a net profit of:									
	1 Per cent	2 Per cent	3 Per cent	4 Per cent	5 Per cent	6 Per cent	7 Per cent	8 Per cent	9 Per cent	10 Per cent
	Mills	Mills	Mills	Mills	Mills	Mills	Mills	Mills	Mills	Mills
\$1.00.....	2.44	4.88	7.32	9.76	12.20	14.64	17.07	19.51	21.95	24.39
1.10.....	2.68	5.37	8.05	10.73	13.42	16.10	18.78	21.47	24.15	26.83
1.20.....	2.93	5.85	8.78	11.71	14.64	17.56	20.49	23.42	26.34	29.27
1.30.....	3.17	6.34	9.51	12.68	15.85	19.03	22.20	25.37	28.54	31.71
1.40.....	3.41	6.83	10.25	13.66	17.07	20.49	23.92	27.32	30.73	34.15
1.50.....	3.66	7.32	10.98	14.64	18.29	21.95	25.61	29.27	32.93	36.59
1.60.....	3.90	7.81	11.71	15.61	19.51	23.42	27.82	31.22	35.12	39.03

TABLE V

Statement showing total amount of ad valorem taxes in 40 years on a present taxable value of \$280,000,000, and decreasing \$7,000,000 per year, with rates at 4, 5, 6, 7, 8, 9, 10, 11 and 12 mills.

4 mills.....	\$22,960,000
5 mills.....	28,700,000
6 mills.....	34,440,000
7 mills.....	40,180,000
8 mills.....	45,920,000
9 mills.....	51,660,000
10 mills.....	57,400,000
11 mills.....	63,140,000
12 mills.....	68,880,000

Average Ad Valorem Taxes and Net Profit Taxes Compared

The state tax levy for the past 20 years shows an average of 3.81 mills for the 20-year period; 4.72 mills for the last 10-year period, and 5.16 mills for the last 5-year period.

The higher average state levy during the last 5-year period is largely due to special levies for soldiers' bonuses, university buildings, and fire and other relief, amounting to 2.17 mills for each of the years 1919 and 1920.

If we apply the high average rate of 5.16 mills for the last 5-year period to a present mineral valuation of \$280,000,000, and decreasing it \$7,000,000 annually because of shipments, we find that the total ad valorem tax, computed on this basis, would be \$29,618,400 for the entire 40-year period.

In order to produce the same amount of taxes from a net profit tax, based on a present tonnage of 1,400,000,000 tons, with annual shipments of 35,000,000 tons, it would be necessary to apply the following percentage rates:

On a net profit of \$1.00 per ton.....	2.12 per cent
On a net profit of 1.10 per ton.....	1.92 per cent
On a net profit of 1.20 per ton.....	1.76 per cent
On a net profit of 1.30 per ton.....	1.63 per cent
On a net profit of 1.40 per ton.....	1.51 per cent
On a net profit of 1.50 per ton.....	1.41 per cent
On a net profit of 1.60 per ton.....	1.32 per cent

TABLE VI

Comparative yield of a 3 per cent and 4 per cent tax on net profits of \$1.00 per ton on 1,400,000,000 tons of iron ore with annual shipments of 35,000,000 tons, and a 5-mill and 6-mill ad valorem tax on a present taxable value of \$280,000,000 and decreasing \$7,000,000 annually because of shipments.

Year	3 per cent Profit Tax	5-Mill Ad Valorem Tax	4 per cent Profit Tax	6-Mill Ad Valorem Tax
1.....	\$1,050,000	\$1,400,000	\$1,400,000	\$1,680,000
2.....	1,050,000	1,365,000	1,400,000	1,638,000
3.....	1,050,000	1,330,000	1,400,000	1,596,000
4.....	1,050,000	1,295,000	1,400,000	1,554,000
5.....	1,050,000	1,260,000	1,400,000	1,512,000
6.....	1,050,000	1,225,000	1,400,000	1,470,000
7.....	1,050,000	1,190,000	1,400,000	1,428,000
8.....	1,050,000	1,155,000	1,400,000	1,386,000
9.....	1,050,000	1,120,000	1,400,000	1,344,000
10.....	1,050,000	1,085,000	1,400,000	1,302,000
11.....	1,050,000	1,050,000	1,400,000	1,260,000
12.....	1,050,000	1,015,000	1,400,000	1,218,000
13.....	1,050,000	980,000	1,400,000	1,176,000
14.....	1,050,000	945,000	1,400,000	1,134,000
15.....	1,050,000	910,000	1,400,000	1,092,000
16.....	1,050,000	875,000	1,400,000	1,050,000
17.....	1,050,000	840,000	1,400,000	1,008,000
18.....	1,050,000	805,000	1,400,000	966,000
19.....	1,050,000	770,000	1,400,000	924,000
20.....	1,050,000	735,000	1,400,000	882,000
21.....	1,050,000	700,000	1,400,000	840,000
22.....	1,050,000	665,000	1,400,000	798,000
23.....	1,050,000	630,000	1,400,000	756,000
24.....	1,050,000	595,000	1,400,000	714,000
25.....	1,050,000	560,000	1,400,000	672,000
26.....	1,050,000	525,000	1,400,000	630,000
27.....	1,050,000	490,000	1,400,000	588,000
28.....	1,050,000	455,000	1,400,000	546,000
29.....	1,050,000	420,000	1,400,000	504,000
30.....	1,050,000	385,000	1,400,000	462,000
31.....	1,050,000	350,000	1,400,000	420,000
32.....	1,050,000	315,000	1,400,000	378,000
33.....	1,050,000	280,000	1,400,000	336,000
34.....	1,050,000	245,000	1,400,000	294,000
35.....	1,050,000	210,000	1,400,000	252,000
36.....	1,050,000	175,000	1,400,000	210,000
37.....	1,050,000	140,000	1,400,000	168,000
38.....	1,050,000	105,000	1,400,000	126,000
39.....	1,050,000	70,000	1,400,000	84,000
40.....	1,050,000	35,000	1,400,000	42,000
	\$42,000,000	\$28,700,000	\$56,000,000	\$34,440,000
	Equals 7.32 Mills		Equals 9.75 Mills	

TABLE VII

Statement showing ad valorem taxes on iron ore, each year for 40 years, on the basis of 33 $\frac{1}{3}$ per cent of full value on a present taxable value of \$186,667,000, and decreasing \$4,667,000 annually because of shipments, based on tax levies of 4, 5, 6, 7, 8, 9, 10, 11 and 12 mills; also total taxes for the entire period at 33 $\frac{1}{3}$ per cent and 50 per cent of full value.

Year	Assessed Value	4 Mills	5 Mills	6 Mills	7 Mills	8 Mills	9 Mills	10 Mills	11 Mills	12 Mills
1.....	\$186,667,000	\$746,668	\$933,335	\$1,120,002	\$1,306,669	\$1,493,336	\$1,680,003	\$1,866,670	\$2,053,337	\$2,240,004
2.....	182,000,000	728,000	910,000	1,092,000	1,274,000	1,456,000	1,638,000	1,820,000	2,002,000	2,184,000
3.....	177,333,000	709,332	886,665	1,063,998	1,241,331	1,418,664	1,595,997	1,773,330	1,950,663	2,127,996
4.....	172,667,000	690,668	863,335	1,036,002	1,208,669	1,381,336	1,554,003	1,726,670	1,899,337	2,072,004
5.....	168,000,000	672,000	840,000	1,008,000	1,176,000	1,344,000	1,512,000	1,680,000	1,848,000	2,016,000
6.....	163,333,000	653,332	816,665	979,998	1,143,331	1,306,664	1,469,997	1,633,330	1,796,663	1,959,996
7.....	158,667,000	634,668	793,335	952,002	1,110,669	1,269,336	1,428,003	1,586,670	1,745,337	1,904,004
8.....	154,000,000	616,000	770,000	924,000	1,078,000	1,232,000	1,386,000	1,540,000	1,694,000	1,848,000
9.....	149,333,000	597,332	746,665	895,998	1,045,331	1,194,664	1,343,997	1,493,330	1,642,663	1,791,996
10.....	144,667,000	578,668	723,335	868,002	1,012,669	1,157,336	1,302,003	1,446,670	1,591,337	1,736,004
11.....	140,000,000	560,000	700,000	840,000	980,000	1,120,000	1,260,000	1,400,000	1,540,000	1,680,000
12.....	135,333,000	541,332	676,665	811,998	947,331	1,082,664	1,217,997	1,353,330	1,488,663	1,623,996
13.....	130,667,000	522,668	653,335	784,002	914,669	1,045,336	1,176,003	1,306,670	1,437,337	1,568,004
14.....	126,000,000	504,000	630,000	756,000	882,000	1,008,000	1,134,000	1,260,000	1,386,000	1,512,000
15.....	121,333,000	485,332	606,665	727,998	849,331	970,664	1,091,997	1,213,330	1,334,663	1,455,996
16.....	116,667,000	466,668	583,335	700,002	816,669	933,336	1,050,003	1,166,670	1,283,337	1,400,004
17.....	112,000,000	448,000	560,000	672,000	784,000	896,000	1,008,000	1,120,000	1,232,000	1,344,000
18.....	107,333,000	429,332	536,665	643,998	751,331	858,664	965,997	1,073,330	1,180,663	1,287,996
19.....	102,667,000	410,668	513,335	616,002	718,669	821,336	924,003	1,026,570	1,129,337	1,232,004
20.....	98,000,000	392,000	490,000	588,000	686,000	784,000	882,000	980,000	1,078,000	1,176,000
21.....	93,333,000	373,332	466,665	559,998	653,331	746,664	839,997	933,330	1,026,663	1,119,996
22.....	88,667,000	354,668	443,335	532,002	620,669	709,336	798,003	886,670	975,337	1,064,004
23.....	84,000,000	336,000	420,000	504,000	588,000	672,000	756,000	840,000	924,000	1,008,000
24.....	79,333,000	317,332	396,665	475,998	555,331	634,664	713,997	793,330	872,663	951,996
25.....	74,667,000	298,668	373,335	448,002	522,669	597,336	672,006	746,670	821,337	896,004
26.....	70,000,000	280,000	350,000	420,000	490,000	560,000	630,000	700,000	770,000	840,000
27.....	65,333,000	261,332	326,665	391,998	457,331	522,664	587,997	653,330	718,663	783,996
28.....	60,667,000	242,668	303,335	364,002	424,669	485,336	546,003	606,670	667,337	728,004
29.....	56,000,000	224,000	280,000	336,000	392,000	448,000	504,000	560,000	616,000	672,000

30.....	51,333,000	205,332	256,665	307,998	359,331	410,664	461,997	513,330	564,663	615,996
31.....	46,667,000	186,668	233,335	280,002	326,669	373,336	420,003	466,670	513,337	560,004
32.....	42,000,000	168,000	210,000	252,000	294,000	336,000	378,000	420,000	462,000	504,000
33.....	37,333,000	149,332	186,665	223,998	261,331	298,664	335,997	373,330	410,663	447,996
34.....	32,667,000	130,668	163,335	196,002	228,669	261,336	294,003	326,670	359,337	392,004
35.....	28,000,000	112,000	140,000	168,000	196,000	224,000	252,000	280,000	308,000	336,000
36.....	23,333,000	93,332	116,665	139,998	163,331	186,664	209,997	233,330	256,663	279,996
37.....	18,667,000	74,668	93,335	112,002	130,669	149,336	168,003	186,670	205,337	224,004
38.....	14,000,000	56,000	70,000	84,000	98,000	112,000	126,000	140,000	154,000	168,000
39.....	9,333,000	37,332	46,665	55,998	65,331	74,664	83,997	93,330	102,663	111,996
40.....	4,667,000	18,668	23,335	28,002	32,669	37,336	42,003	46,670	51,337	56,004
<hr/>										
Taxable at 33½ %	\$15,306,668	\$19,133,335	\$22,960,002	\$26,786,669	\$30,613,336	\$34,440,006	\$38,266,670	\$42,033,337	\$45,920,004	
Taxable at 50 %	22,960,000	28,700,000	34,440,000	40,180,000	45,920,000	51,660,000	57,400,000	63,140,000	68,880,000	
Decreased at 33½ %	7,653,332	9,566,665	11,479,998	13,393,331	15,306,664	17,219,994	19,133,330	21,046,663	22,959,996	

The Reduction of the Taxable Value of Iron Ore to $33\frac{1}{3}$ Per Cent of True and Full Value

If the taxable value of iron ore be reduced to $33\frac{1}{3}$ per cent of true and full value it would mean a reduction of one-third in the total taxable value of this class of property. This reduction in taxable value, however, would not necessarily mean a corresponding reduction in amount of taxes such property would pay. An increase in the millage levy might offset, in whole or in part, the reduction in the taxable value.

To illustrate the point: A levy of 60 mills would represent a tax of 6 cents on each dollar of taxable value. If the taxable value were reduced one-third, to $66\frac{2}{3}$ cents, the tax would then be 4 cents. But an increase in the tax rate to 75 mills would increase the tax to 5 cents, while an increase in the rate to 90 mills would mean an increase in the tax to 6 cents, or just where it was before the reduction was made in taxable value.

The maximum number of mills, however, that may be levied by counties and local districts, except school taxes in certain independent school districts, is limited by law. This limitation might prevent any substantial increase in the present millage rates.

Tables I and VII show comparative taxes on iron ore at 50 per cent and $33\frac{1}{3}$ per cent of full value for each year of the 40-year period, the former based on a present valuation of \$280,000,000 and decreasing \$7,000,000 annually, and the latter on a present valuation of \$186,667,000, and decreasing \$4,667,000 annually due to shipments, both computed on tax levies running from 4 to 12 mills. Total taxes for the entire period on both percentages, together with the total reduction due to the decrease in taxable value, are shown at the end of Table VII.

Should Not Be a Sectional Issue

The so-called tonnage tax question, and in its more recent phase, the net profit tax on mined iron ore, has attracted more or less public attention for more than a dozen years past. Much has been said and written on the subject, both for and against, that would not stand the scrutiny of calm and impartial investigation. On the other hand, the proposal has been supported in some quarters by arguments that seemed to justify such a tax, and met by equally convincing arguments that such a tax was not only economically unsound, but that it threatened the very existence of one of the great industries of the state.

The issue, unfortunately, has become somewhat sectional. There is a feeling in some parts of the state that mining corporations whose activities are confined to the northeastern part of the state are making excessive profits from the mining of iron ore, while, because of the so-called "natural heritage" and diminishing value theories, a considerable part of these profits by right belongs to the state and ought to inure to the benefit of all the people of the state. In the northeastern section it is felt that a tonnage tax is a menace to that particular section, and that the enactment of such a law would spell disaster to a large number of citizens of our commonwealth.

While there may be some prejudice on one side and some undue fear on the other, the thoughtful citizen will be loth to believe that a majority of the people of the state would deliberately, and by force of numbers, impose an unfair and unjust tax on any section, or any industry in the state, while, on the other hand, he will be just as loth to believe that any section of the state would deliberately attempt to evade any of its obligations to contribute its just and reasonable share toward the public revenues.

The question of a tonnage tax or a tax on profits derived from mining is too important and too far-reaching in its possible consequences to be settled by either prejudice or sectionalism. Any proposal to change our present method of taxing the great mineral deposits of the state should be considered purely on its merits. It should not be a measure to enrich the state treasury, regardless of justice or its effect on any section or industry of the state. Minnesota cannot afford to jeopardize its good name by imposing an unjust and unfair tax on any property within its boundaries, nor can it afford to permit any property to escape its just share of the public burden.

If the present method of taxing the mineral wealth of the state is not equitable, or is in any way unfair to the people of the state or to those engaged in mining, it should be changed, but any proposed change should be based on absolute justice, and not on prejudice or sectionalism, or with the single idea of exacting all the traffic will stand. If mining companies are not now paying as much in taxes as they should, steps should be taken to increase the amount, but not to the extent of jeopardizing the great mining industry of the state. While every type of property should bear its fair share of the public burden, no property should be confiscated by taxation. If the so-called tonnage tax question is approached in this spirit, a just and equitable law can be worked out.

In considering a change in the method of taxing iron ores, it should not be overlooked that we have a large tonnage of low grade ores in the state that are not now merchantable, and that any increase in the tax burden on such ores would result in discouraging, if not entirely stopping their further development. Indeed, the state could well afford to practically exempt low grade ores from taxation, or at least impose a very low tax on them, until some method of treatment can be devised by which such ores can be made a merchantable commodity. There are millions of tons of such ores in the state that are now of little value, and will probably remain so, unless the state aids in some way in their development. It is generally believed that large deposits of these low grade ores will be found in a considerable area extending from the northeastern to the southwestern part of the state. If they can be made merchantable by any process of beneficiation the state will have ore to mine for an indefinite number of years to come.

Changing the Method of Mineral Taxation in Minnesota

While the members of the tax commission are not in entire agreement as to the best method, under existing conditions, of taxing iron ore, they are in full agreement that if the mining industry were in its infancy some method of output taxation, perhaps on the basis of net profits, would be preferable to the ad valorem tax method. But after more than a quarter of a century of mining activity, during which time populous cities and villages have sprung up in the mining sections of the state, with revenue systems based on ad valorem taxation, we do not feel it would be either practicable or expedient to now substitute an output or net profit tax for the ad valorem tax, so far as county and local revenues are concerned.

The amount of public revenue that might be derived in any year from an output or net profit tax could at best be only approximated. As already explained, it would fluctuate from year to year according to output or profits. In a year of adverse mining conditions it would probably be abnormally low, while in a year of prosperous mining conditions it would probably be abnormally high.

This fluctuating factor in amount of annual revenue to be derived from an output or net profit tax would not be of serious moment to the state, because by far the greater part of its public revenues is derived from other sources of taxation. But with counties and local districts it is quite different. In many of them the revenues derived from mine taxation represent by far the greater part of the whole. In some of the municipalities in the mining sections of the state more than 90 per cent of their total public revenues comes from mine taxation.

Reasonable certainty in the amount of annual revenue that may be expected from any method of taxation is one of the essential factors in the wise and economical administration of public affairs. This is especially true of the smaller units of government. School and local districts must be able to estimate, with reasonable accuracy, the probable amount of money that will be at their disposal during the year in order that they may regulate their expenditures accordingly. If districts having large ore deposits were dependent upon an output or net profit tax, they might find themselves in serious financial straits in a lean mining year and with a surplus in a prosperous mining year. Neither condition is desirable. The uncertainty in the amount of public revenue that may be expected in any year from an output or net profit tax on iron ore makes either proposal, in our opinion, an undesirable system of taxation in local districts depending largely on mine taxation for public revenues.

The situation is somewhat different with the state. As already pointed out, only a relatively small part of its total revenues comes from mine taxation. The fluctuating element in an output or net profit tax would not seriously affect state revenues. The prosperous year would take care of the lean year. If necessary, state expenditures can be predicated on the average amount of revenue that may be expected from an output or net profit tax for a term of years, and either more or less than the expected average in any year would not embarrass the state financially. It could therefore, in our opinion, substitute an output or profit tax for the ad valorem tax without any serious effect on its public revenues, other than as the rate might affect them.

A Net Profit Tax Should be in Lieu of All Other State Taxes

We have used the term "substitute," rather than the term "super-tax" in the preceding paragraph, because we believe that if it should be decided to impose a tax for state purposes on the net profits derived from the mining of iron ore, such tax should be a lieu tax, and not a super-tax; that is, it should be in lieu of all other state taxes. We do not believe the state would be justified in imposing two different kinds of taxes on the same class of property, whether it be iron ore or any other property. Of course it may be urged that an ad valorem tax on the property and a tax on net profits would not be a double tax on the same class of subjects, because one is a tax on the value and the other on profits. But in effect it is double taxation, for it imposes a tax, first on the property itself, and then on the net proceeds derived from the sale of the property. It would at least be a double tax burden, whether such burden be large or small. After all, it is a question of how much revenue iron ore should contribute toward the public expenses. Whatever that amount should be, it can be raised by either a specific or general ad valorem tax, or a net profit tax, without experimenting with a double tax system of at least doubtful constitutionality.

It may be urged that to make the net profit tax on iron ore a lieu tax, so far as all state levies are concerned, would result in a considerable loss to the school and university funds, and to other special funds, as well as to the state road and bridge fund. But all of these special levies are made under statutory authority, and the loss arising from a substituted net profit tax could be taken care of by a specific apportionment of the tax, or by legislative appropriations out of revenues derived therefrom, except in the case of the state levy for road and bridge purposes, the latter not being a purpose for which the legislature may make appropriations under the state constitution. The amounts of the different state tax levies on iron ore for all purposes during the past five years were as follows:

STATEMENT OF AMOUNT AND PURPOSE OF STATE TAX LEVIES ON IRON ORE TONNAGES FOR THE YEARS
1916 TO 1920 INCLUSIVE.

	1916.		1917.		1918.		1919.		1920.	
Assessment	\$279,306,877		\$295,251,126		\$301,839,976		\$287,447,166		\$295,778,349	
	Rate	Amount.	Rate	Amount.	Rate	Amount.	Rate	Amount.	Rate	Amount.
	Mills.		Mills.		Mills.		Mills.		Mills.	
State Taxes:										
Revenue	1.00	\$279,307	2.50	\$738,128	1.00	\$301,840	3.50	\$1,006,065	.80	\$236,623
Soldiers' relief .....	.10	27,931	.10	29,525	.10	30,184	.10	28,745	.10	29,578
Road and bridge	1.00	279,307	1.00	295,251	1.00	301,840	1.00	287,447	1.00	295,778
Prison building .....	.15	41,896	.15	44,288	.10	30,184	...	...	...	...
National guard armories .....	.03	8,379	.03	8,858	...	...	.03	8,623	...	...
Educational building .....	.12	33,517	...	...	...	...	.32	91,983	.32	94,649
Historical Society building .....	.01	2,793	.01	2,952	.01	3,018	.01	2,875	.05	14,789
Itasca state park .....	.01	2,793	.01	2,952	.01	3,018	.01	2,875	.02	5,916
Soldiers' bonuses .....	...	...	...	...	...	...	1.75	503,033	1.50	443,663
State board .....	...	...	...	...	...	...	.05	14,372	.10	29,578
Forest fires .....	...	...	...	...	...	...	.05	14,372	.25	73,945
General school	1.00	279,307	1.00	295,251	1.00	301,480	1.00	287,447	1.00	295,778
University .....	.23	64,240	.23	67,908	.23	69,423	.23	66,113	.23	68,029
Teachers' insurance and retire- ment .....	.05	13,965	.05	14,762	.05	15,092	.05	14,372	.05	14,788
Totals	3.70	\$1,033,435	5.08	\$1,499,875	3.50	\$1,056,439	8.10	\$2,338,322	5.42	\$1,603,119

Constitutionality of a Net Profit Tax

The question of the constitutionality of a net profit tax on iron ore, especially if the tax is imposed as a super-tax and not as a lieu tax, is one that should be carefully considered by the legislature. In essence a net profit tax on iron ore is a tax on the net income derived from the mining of the ore, and while it is possible that the legislature, under its constitutional power to classify property, may make income a separate subject of taxation, there is serious doubt of its power to impose a tax on income derived from the mining of one kind of ore, or from the development of one kind of natural wealth, and exempt from its operation income derived from the mining of some other kind of ore, or from the development of some other kind of natural wealth, if indeed it can impose a tax on income at all unless the tax applies alike to all income regardless of its source. Attention is called to this phase of the question in order that it may be given such consideration as its importance seems to warrant.

Reduction in the Ad Valorem Tax Base

Iron ore is now taxable at 50 per cent of full value, while urban property is taxable at 40 per cent, and farm property at $33\frac{1}{3}$ per cent of full value. This difference in taxable value means that the tax burden on iron ore is 25 per cent greater than on urban property, and 50 per cent greater than on farm property, so that in effect, we already impose a super-tax on iron ore. Should it be the policy of the state to substitute a net profit tax for the ad valorem tax for all state purposes, we believe the super-tax should be included in the percentage rate imposed on net profits, rather than in the ad valorem tax base. We therefore suggest that if a change should be made to the net profit system, the taxable value of iron ore should be reduced from 50 per cent to $33\frac{1}{3}$ per cent of full value in order that it may be on the same tax base as other property in the state not used for urban purposes.

While it may be urged that the suggested reduction in the percentage of taxable value of iron ore would mean a considerable loss in the tax receipts of counties and local districts in the mining sections of the state, it is not believed that such reduction would result in depriving them of needed public revenues with which to defray all necessary expenses of county and local governments. Even at $33\frac{1}{3}$ per cent nearly all of the local districts in the mining sections would have a much larger total taxable value than other like dis-

tricts of equal population in other parts of the state. Of course mining districts are confronted with many unusual problems not found in non-mining districts, so that in order to meet conditions peculiar to mining districts, the latter must have relatively larger revenues than the former. However, admitting their greater needs, we believe a reduction in the ad valorem tax base would not seriously curtail their necessary public revenues. Many of them, if necessary, could offset the reduction by increasing the rate of tax levy.

But there are other considerations than that of not imposing a double super-tax on iron ore why it would be in the interest of sound public policy to reduce the tax base to 33½ per cent. With a net profit tax on output substituted for the ad valorem tax for all state purposes, and a reduction in the ad valorem tax base for county and local purposes, a substantial reduction would be made in the tax burden on reserve ores, thus tending to conservation, and on low grade ores during the period of experimentation in the endeavor to make such ores merchantable. Then, too, such reduction would be an incentive to increased activity in exploring for new ore bodies because of the lessening of the tax burden on the new discoveries until ready to be mined. We believe that the advantages to be gained from the conservation of reserve ores, the increase in the value of low grade ores that may be reasonably expected if experimentation is encouraged, and possible new ore discoveries will eventually more than compensate for any present loss arising from a reduction in the local ad valorem tax base.

The Question of a Trust Fund

There is considerable sentiment in favor of creating a trust fund out of any additional tax or super-tax that may be imposed on iron ore. It is contended that if such property should be taxed on a higher basis than other property because of the natural heritage and diminishing value theories, then that part of the tax representing the natural heritage element should be made a trust fund, for if it is a heritage, it is as much a heritage of future generations as of the present generation.

While there is a considerable difference of opinion as to the wisdom of building up large trust funds, the state, at the very beginning of its history, inaugurated the policy of creating trust funds for certain specified purposes, and that policy has been continued up to the present time. On June 30th of the present year these trust funds amounted to a total of \$42,961,648 of which amount

\$30,920,033 was in the permanent school fund, \$1,978,191 in the permanent university fund, \$2,906,270 in the internal land improvement fund, and \$7,157,154 in the swamp land fund.

But regardless of the wisdom of the policy of creating public trust funds, it is very questionable whether the present state constitution authorizes the legislature to create and build up a trust fund out of the proceeds of a general or specific tax on any class of property. Even if it has such power, there would be no assurance of the permanency of such fund, for any subsequent legislature could repeal the law and distribute the fund in any public manner it might determine. It would therefore be necessary, if it were deemed wise to create a trust fund out of the proceeds of an additional or super-tax on iron ore, to amend the state constitution if the permanency of such fund is to be definitely assured.

Conclusions

In concluding this chapter it may not be inappropriate to say that we feel we have been reasonably successful in the past in the somewhat difficult task of equitably valuing the known mineral deposits of the state for purposes of taxation. Iron ore has no taxable value, nor has any other property for that matter, until it is discovered. We cannot look into the ground and determine whether or not a given description of land contains iron ore. Ore bodies can only be definitely located through drillings or other forms of exploration. But when they are definitely located and defined, we can, under the system used by the commission, appraise their values for purposes of taxation with probably as much accuracy as we can appraise the taxable values of farm and city realty.

While we believe it would be feasible so far as state taxes are concerned, if constitutional, to substitute a net profit tax on mined iron ore for our present ad valorem method of taxing mineral property, the members of the tax commission are not in entire agreement as to the wisdom and expediency of making such a change at this time. Many arguments of considerable force can be made in favor of either the ad valorem or net profit method of mine taxation. Neither method, however, is entirely free from criticism and objection, and both present administrative difficulties. With the information here made available, we believe the members of the legislature are as competent as are the members of this commission to determine whether or not a change in the present ad valorem method of taxing iron ore is desirable. The tax commission will endeavor to administer faithfully and impartially any tax law that may be enacted

by the legislature, regardless of whether or not its individual members are personally in harmony with the principles embraced in the law.

There are some points, however, that we desire to particularly emphasize if it should be decided to change to the net profit method of mine taxation. Not the least important consideration in any taxing system is that of ease and certainty of administration. While the underlying principle of a taxing system may be good, the application of the principle may be so intricate and difficult as to render the system undesirable. It is a well recognized principle in taxation that the amount of the tax should be fixed with reasonable certainty, and not left to individual caprice or whim. The taxpayer is entitled to know what contributions will be required of him for the support of government, and while it is not always possible to determine definitely in advance the exact amount of such contributions, it is possible to fix the amount with measurable certainty.

Because of the importance of ease of administration and certainty of the amount of the tax, it is highly desirable that the provisions for determining net profits for purposes of taxation be clearly and definitely stated in the law. The items of expense that are to be included in the amount to be deducted from the market value of the ore in arriving at net profits should be set forth in detail. Unless such deductions are carefully enumerated, the administration of the law will be difficult because open to constant dispute, and possible litigation, as to what items of expense should be included in deductible mining costs.

While we make no definite recommendation as to the desirability or expediency of imposing a tax on the net profits derived from the mining of iron ore, if such a law should be enacted we unhesitatingly recommend:

1. That the tax imposed under the law be in lieu of all other state taxes on mineral property.
2. That the taxable value of iron ore for county and local purposes be reduced from 50 per cent to $33\frac{1}{3}$ per cent of true and full value.
3. That the method of determining net profits for purposes of taxation be definitely fixed in the law.

In conclusion, we believe it would be in the interest of sound and wise public policy if the so-called tonnage tax question could be settled in some way with reasonable assurance of permanency. Millions of dollars of capital have already been invested in the mining

industry, and millions more will have to be invested in the future, if the immense deposits of low grade and magnetic ores to be found within our borders are to be made a merchantable commodity. It is only fair to the people who are investing such large amounts in developing our mining industry that the method of taxing the values arising from such investments be fixed with some reasonable assurance of future permanency. In many cases large investments in development work must be made long in advance of any returns from active mining operations. If the people who are making these investments feel that the method of taxing them may be changed, perhaps before they begin to receive returns, there is grave danger of seriously discouraging further investments in mining enterprises in our state. A settled taxing system is therefore not only desirable, but almost imperative if we are to reap full fruition from the great mineral deposits with which our state has been so richly endowed.

It is scarcely necessary to add that if any change should be made in our present method of taxing iron ore, the effect of such change on the mining industry, both present and future, should be carefully considered, and that while the probable amount of public revenue to be expected from the tax should also be carefully considered, the new law should be framed in a spirit of absolute fairness and justice, economically and industrially, to every section and every interest of the state.



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